

CO27. *LARGE SCALE VOLUNTARY TRANSFER: DRAFT TENANCY AGREEMENT

DECISION:

The Cabinet recommends to Council that:

- 1. The impact of the diseconomies of scale from LSVT are managed out over a five year period;**
- 2. The General Fund be protected by utilising interest receipts generated from LSVT capital receipts based on a phased Capital Programme;**
- 3. The Capital Programme be phased over:**
 - i. 5 years for affordable housing utilising 50% of the net useable receipt and**
 - ii. 10 years for Developing Sustainable Communities utilising the other 50% of the net useable receipt,****with an annual review of the Capital Programme to ensure that the council tax payer remains protected from the impact of the LSVT**
- 4. The approval of the text within the Formal Consultation Document Offer to Tenants with minor modifications made at the meeting;**
- 5. That the Leader be delegated the authority to approve the format of the document;**
- 6. That the Formal Consultation Document is issued to tenants as explained in paragraph 3.4 of report CHFR11.**

Considerations/Reasons for Decision:

- (1) Report number CHFR11 and its appendices (including the draft Offer to Tenants), by the Corporate Head of Finance and Resources and the Director of Tenancy Services on the financial implications of the proposed LSVT and the draft Offer to Tenants;
- (2) Considerations of the LSVT member group and the Resources Development and Scrutiny Panel on the financial implications of LSVT;
- (3) The Enterprise Beha Williams Norman Ltd (EBWNL) report on Housing Options Appraisal which was presented to Cabinet on 9th May 2005 and subsequent updates identifying key areas of potential financial impact including the valuation of the housing stock, set up costs, estimated capital receipts, statutory housing services, diseconomies of scale, housing benefit costs, VAT, impact on revenue support grant and interest receipt (initial impact assessment of these was attached as Appendix A to the report);
- (4) The Draft Offer, which was based on a template produced by the Council's legal advisors and on experience and best practice from previous stock transfers;
- (5) Comments on the draft offer document from: the Tenants Working Group, the LSVT Working Group, the Offer Review Working Group

- and the Shadow Board of South Lincolnshire Homes;
- (6) Appendix B should be amended so that the amount added to the RPI and the 0.5% should reflect the value in the offer document of £2.17;
 - (7) Information included in Appendix B, page 3 on voids was based on historical information within the Council;
 - (8) Definitions of the terms “assign” and “Limited” should be included in the definition of terms;
 - (9) Page 28 should be amended to read *“this guarantee would apply to the rent increase by South Lincolnshire Homes in 2008 and then in April 2009, 2010, 2011 and 2012”*;
 - (10) There should be some reference within the Draft Offer to the fact that leaseholders have been involved throughout the process;
 - (11) Text within the offer document reflected legal advice and legislation;
 - (12) Under section 14, it should be confirmed that the necessary permission would need to be provided in a written form;
 - (13) The format of the document would be designed to make it easily readable and understandable to tenants; this would include a colour-coding system.

Other options considered and assessed for the protection of the general fund:

- 1. Use of interest receipts generated from LSVT capital receipts, based on phased capital programme. A model of an indicative capital programme and assumptions regarding investment receipts based on a phased capital programme was attached as appendix C to the report. If the estimated impact on the general fund is managed over a period of time, then the anticipated receipts from a phased capital programme would be sufficient to protect the general fund. If this option was the preferred mechanism for protecting the General Fund, then it would be prudent to undertake an annual review of the capital programme to ensure that the General Fund remains protected by use of interest receipts.
- 2. Top sliced sum from LSVT capital receipt. A worst case scenario based on interest rates of 4.5% and an estimated impact on the general fund of around £500,000, it is estimated that £11.15million would be required to protect the general fund, leaving a capital receipt for investment of £13.15million, also assuming that the impact on the general fund was not managed out over the five year period.
- 3. Use of balances transferred from HRA. The balance on the HRA would transfer to the general fund post transfer once Secretary of State approval has been received to close the HRA. This could be utilised in part to protect the general fund, although the level of balances is likely to be insufficient to generate interest earnings to cover the financial impact on the general fund, therefore, the balance would also need to be drawn upon to fully protect the general fund. In addition, as the approval to close the HRA has to be sought from the

Secretary of State, which can only be sought a year after the last transaction on the account, this would not be a suitable option in the year following an LSVT.

4. Use of VAT shelter. A report on the potential for a VAT shelter had been prepared by EBWNL and attached as appendix D. Whilst there is potential for significant financial benefits from developing a VAT shelter, the Council would need to obtain specialist VAT advice before proceeding. Any VAT Shelter scheme may be subject to future changes in legislation and until specialist advice has been received, it is considered that this is the least desirable option for protecting the general fund.

It was noted that no members of the press or Council members with concerns over LSVT attended the meeting.